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House Committee on Financial Services
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**U.S. DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT**

**Statement of Thomas C. Dorr, Under Secretary, Rural Development, before the
House Subcommittee on Financial Services.**

Mr. Chairman and members of the Committee, thank you for this opportunity to testify on the Multi-Family Housing Section 521 Rental Assistance (RA) Program. The RA Program currently helps 264,000 households maintain their rental residence by providing a subsidy to pay the difference between the basic rent for the apartment and up to 30 percent of an eligible tenant's income.

Section 515 multifamily housing borrowers operate the RA program under contract with USDA. These contracts consist of a commitment from the borrower to operate an affordable housing property for the life of the mortgage and a commitment from the United States Government to provide funds to help residents make rent payments. At the start of the RA Program in 1978 until 1982, contracts were executed for 20-year (for new construction) and 5-year (for existing properties) terms. Contracts executed after that period are all 5-year contracts. All contracts continue until the obligated RA funds are depleted.

The General Accounting Office is reviewing the Section 521 Rental Assistance Program and has raised concerns about the unliquidated balances on the 20-year contracts and 5-year contracts on which rental assistance payments continue to be paid on units beyond the original terms. Rural Development has determined that there is \$737,000,000 outstanding on these active contracts that were obligated between 1978 and 1998. This obligated amount remains outstanding for several reasons:

- 1) The 1978-1982 contracts were vastly overestimated mostly due to newness of the program;

- 2) Lower than projected rental assistance usage occurs as tenant income goes up and the gap narrows between 30 percent of income and the basic rent. As a result, less RA is needed;
- 3) Low usage is also experienced when vacancies at the property are higher than expected. This reduces the number of occupied units and may reduce the amount of rental assistance used by the property; and
- 4) Rental assistance units exist in perpetuity. If a property no longer needs RA on several units, the RA on those units is transferred to another property to provide RA for rent overburdened tenants. The usage on these units is subject to adjustment due to changes in tenant income and property occupancy conditions.

Of the outstanding \$737,000,000, \$525,000,000 (as of March 11, 2003) represents unlimited authority through the U.S. Treasury to fund the 20-year contracts made between 1978 through 1982. The outstanding obligations are termed “unliquidated obligations,” which means unused authority to fund contractual obligations for that period. These are not dollars that Rural Development can access to spend to fund RA for new construction. These RA funds are only available for the current contracts or may be transferred to other units on existing contracts.

Unliquidated obligations are not unique to the rental assistance program; every program has obligations to be paid in the future by the Government.

The contract executed by Section 515 borrowers identifies a specific amount of rental assistance obligation. Changes in use would require these contracts to be renegotiated with the borrowers and legislation would be needed to provide more flexibility in the use of these funds. This would allow funds set aside for RA payments in the distant future to be used to fund more RA units today. We are willing to work with your Committee and the Appropriation Committee, General Accounting Office, and Office of Management and Budget to explore more flexibility in using this funding source, provided that this can be done without increasing the Government’s exposure to future unmet funding needs.

The Committee has inquired about the inactive contracts in our portfolio. Those contracts fall into three categories:

- 1) Contracts that have not yet started paying out because the contract they are replacing has not yet exhausted all funds;
- 2) Contracts that have not yet started paying out because a new construction project has not been completed and started operations; and
- 3) Any property whose debt has been accelerated or is in foreclosure and RA is being held in abeyance until those legal actions are completed. Upon completion of these servicing action, the RA will begin flowing again at that property or another that needs the RA. In each case, these “inactive” contracts will be started or re-started.

Rural Development has taken steps to become more accurate in our projections of RA, including automation initiatives, RA review, Management Control Review, and Regulation 3560 proposed changes. Rural Development will continue to work with the Committee and other interested parties in reviewing the unliquidated obligations

Mr. Chairman, this concludes my testimony. Thank you for allowing me the opportunity to testify today. I hope I have clearly illustrated for you the status of the Rental Assistance unliquidated obligations. With your continued support, Rural Housing Service looks forward to continuing to work with Congress to provide decent, affordable housing to very low, low, and moderate income rural Americans.